provide adequate security for the RUS loan.

§ 1735.92 Accounting considerations.

- (a) Proper accounting shall be applied to all acquisitions and mergers, as required by the regulatory commission having jurisdiction, or in the absence of such a commission, as required by RUS based on Generally Accepted Accounting Principles or other accounting conventions as deemed necessary by RUS.
- (b) If RUS determines that the plant accounts are not properly depreciated, the borrower should adjust its depreciation rates. Depending upon the characteristics of the case, commission jurisdiction and requirements, and similar factors, one of the following actions shall be taken:
- (1) In states where commission approval of depreciation rates is required, a covenant shall be included in the loan contract that requires the borrower to:
- (i) Have the consulting engineer make an original cost less depreciation inventory and appraisal of retained plant as part of the final inventory, and
- (ii) Request commission approval of adjustments to its records on the basis of this inventory.
- (2) In states where commission approval is not required, informal discussions between RUS and the borrower may be undertaken to reach satisfactory voluntary adjustments. If this does not resolve the situation to RUS's satisfaction, a covenant similar to that in paragraph (b)(1)(i) of this section shall be included in the loan contract and the borrower shall agree to submit evidence satisfactory to the Administrator that it has adjusted its records on the basis of the inventory.

§1735.93 Notes.

Substitute notes may be required in the case of an acquisition or merger, regardless of the source of funds.

§ 1735.94 Final approval and closing procedure.

(a) Legal documents relating to the acquisition or merger, including copies of required franchises, commission orders, permits, licenses, leases, title evi-

- dence, corporate proceedings, and contracts to be assigned to the purchaser shall be forwarded to the Area Office prior to closing.
- (b) The Administrator will not give final approval to any acquisition or merger until all RUS requirements relating to the transactions are satisfied.
- (c) Following the Administrator's final approval of the proposal, the Area Office shall inform the borrower in writing of the necessary legal and other actions required for the advance of loan funds to finance the acquisition, including the submission, in form and substance satisfactory to the Administrator, of (1) all information and documents necessary to demonstrate that the transaction has been completed, and (2) all loan contracts, notes, mortgages, and related documents and materials required by RUS.
- (d) Deeds reflecting the change in ownership, executed bills of sale, and opinions of counsel shall be forwarded to the Area Office following closing.
- (e) RUS will not advance loan funds to furnish or improve service in the acquired or merged areas until the Administrator has given final approval and the transaction has been closed. RUS may, however, advance funds if it determines that loan security will not be jeopardized.
- (f) At the discretion of RUS, a GFR may be present at the closing to assist the borrower and protect the interests of RUS. Under certain circumstances the closing may take place prior to RUS granting final approval for the transaction and the execution of amended loan security documents.

§ 1735.95 Unadvanced loan funds.

- (a) The unadvanced loan funds of a borrower that will not be a survivor of an acquisition or merger shall be advanced only to the survivor and only under the following circumstances.
- (1) If the funds are to be used for purposes approved in prior loans, the funds shall be advanced after the effective date of the proposed action only when all loan contract prerequisites have been met and documents have been submitted in form and substance satisfactory to the Administrator.